

MONTHLY FINANCIAL UPDATE

JUNE 2008 REPORT HIGHLIGHTS

- The May 2008 *Arizona Blue Chip Economist Forecast* reports an expected continuing deterioration of the economy at both the national and state levels for 2008 and well into 2009. Several Blue Chip panelists are forecasting negative growth for jobs and retail sales in Arizona, as well as a very weak 1.2 percent growth in the nation's overall economy. Financial Services staff will continue to closely monitor and report to Council on the status of the local economy, City revenues and expenditures, and will bring forward any necessary adjustments to the City's budget plan as we head into FY 2008/09.
- **Yearend General Fund revenue estimates** have been revised downward \$13.4 million from the FY 2007/08 budget plan to reflect a slowing national and local economy and lower estimated City and State Shared Revenues due to declining sales tax collections. Despite the recent downturn in the economy and slowing revenue activity, Scottsdale ended the last fiscal year in good financial position due to prudent financial policies and practices.
- As the single greatest revenue source for the General Fund, fiscal year-to-date **Sales Tax revenues** are down \$3.9 million over FY 2006/07 and are down \$8.1 million compared to year-to-date budget. Fiscal yearend revenue projections have been revised downward \$9.2 million to reflect the latest sales tax activity. Also, State Shared Sales Tax revenue forecast has been revised downward by \$2.5 million. (Refer to "General Fund Revenue" section, page 2, for more detail.)
- **Permit and Fee revenue** is down \$3.1 million fiscal year-to-date over the prior-year period; Budget-to-actual year-to-date revenue is down \$3.4 million for FY 2007/08. Revenue projections have been revised downward by \$4.0 million. Planning department staff anticipates additional revenues in future months related to permit activity for SkySong and Scottsdale Quarter.

GENERAL FUND ESTIMATED YEAREND BALANCE

FY 2007/08 Estimated Fiscal Yearend General Fund Balance

The following table compares the FY 2007/08 budget plan to the current General Fund balance forecast, incorporating the latest economic estimates and impacts of economic contingency plans.

Estimated Fiscal Yearend 2008 General Fund Balance (In Millions)	FY 2007/08 Approved Budget	FY 2007/08 Current Forecast	Variance Surplus/ (Deficit)
Beginning Balance July 1, 2007	\$ 56.3	\$ 67.1	\$ 10.8
Sources of Funds	294.3	281.3	(13.0)
Use of Funds: (operating expenditures)	248.3	247.1	1.2
Transfers Out	55.7	55.5	0.2
Debt Service	6.6	5.2	1.4
Estimated Ending Balance June 30, 2008:			
Liabilities Reserve	5.0	-	(5.0)
Operating Contingency	2.1	2.1	-
Photo Enforcement Loop 101	-	1.4	1.4
General Fund Reserve	28.4	28.1	(0.3)
Unreserved Fund Balance	4.5	9.0	4.5
Estimated Total FYE General Fund Balance	\$ 40.0	\$ 40.6	\$ 0.6

Table may display minor rounding variances in the aggregate due to reflecting amounts in millions.

Notes: The Beginning Balance has been adjusted for yearend close/audit. The increase of \$10.8 million represents additional payroll vacancies of \$4.5 million and fund transfer variances, including \$2.9 million not transferred out to the Transportation Fund due to higher transportation revenues and \$1.0 million not transferred out to the MPC as a result of the savings related to refinancing debt. The variance for Sources of Funds reflects a slowing national and

Monthly Financial Update

local economy related to retail, automotive, and construction activity, as well as lower estimated State Shared Revenues due to declining sales tax collections at the State level. Use of Funds includes estimated yearend expenditure savings for departments of \$5.7 million offset in the Approved Budget column (\$248.3M). Debt Service savings includes revised contracts payable estimates for FY 2007/08, including Scottsdale Motor Mile Marketing.

The \$5.0 million Liabilities Reserve has been eliminated in the FY2007/08 Current Year Forecast because staff already adjusted the beginning balance (GAAP to Budget basis) for these liabilities effective June 30, 2007. When compared to the Approved Budget, this modification does NOT affect the Total Ending Fund Balance amount; rather it represents a shift amongst the components of fund balance. The Unreserved Fund Balance increases by \$5.0 million because of the Liabilities Reserve elimination.

GENERAL FUND REVENUE

The following table summarizes key revenues (revenues that change with the economy) that affect the City's General Fund. The table compares year-to-date (YTD) budget-to-actual revenues and current yearend revenue estimates to the budget plan. Adjustments to the FY 2007/08 current estimates are reflected in the table, along with justifications noted below. The net impact of these adjustments to the revenue is \$13.4 million under the FY 2007/08 budget plan, primarily reflecting a slowing national and local economy tied to the slumping housing market and tight consumer credit, and a related slowdown in retail, tourism, automotive, and construction activity.

FY 2007/08 General Fund Revenues (In Millions)	Fiscal YTD Budget	Fiscal YTD Revenue	Variance Surplus / (Deficit)	FY 07/08 Budget	FY 07/08 Current Forecast	Variance Surplus / (Deficit)
Privilege & Use Tax ⁽¹⁾	\$ 114.6	\$ 106.5	\$ (8.1)	\$ 125.0	\$ 115.8	\$ (9.2)
Trans Occup (Bed) Tax ⁽¹⁾	2.0	1.8	(0.2)	2.2	2.0	(0.2)
Auto Lieu Tax	9.5	8.7	(0.8)	10.4	9.4	(1.0)
Develop Permits & Fees	14.9	11.5	(3.4)	16.5	12.5	(4.0)
State Shared Sales Tax ⁽²⁾	21.8	19.9	(1.9)	23.9	21.4	(2.5)
State Shared Income Tax	30.3	30.3	-	33.1	33.1	-
Interest Earnings	4.8	4.7	(0.1)	5.2	6.6	1.4
Other	63.8	66.3	2.5	68.9	71.0	2.1
Total Revenue	\$ 261.7	\$ 249.7	\$ (12.0)	\$ 285.2	\$ 271.8	\$ (13.4)
Transfers In - Other				9.1	9.5	0.4
Total Sources of Funds³				\$ 294.3	\$ 281.3	\$ (13.0)

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- (1) *Privilege & Use Tax and Transient Occupancy Tax collections lag by one month (April activity reported in May results).*
- (2) *Fiscal year State Shared revenues are running below the forecast provided by the Arizona Department of Revenue (ADOR) and the League of Arizona Cities and Towns. We have adjusted our forecast based upon current economic activity and revised estimates and receipts from the State.*
- (3) *Ties to Sources of Funds line item in "General Fund Balance" table, page 1.*

- As the single greatest revenue source for the General Fund, fiscal year-to-date Sales Tax revenues are down \$3.9 million over FY 2006/07 and are down \$8.1 million compared to year-to-date budget for FY 2007/08. Fiscal yearend revenue estimates have been reduced by \$9.2 million to address lower sales tax revenues, particularly related to slow construction activity and automotive sales. The latest estimates take into account a downturn in construction and auto sales activity and expected movement of some auto dealers to neighboring communities. Additionally, using an enhanced method to project construction sales tax, FY 2008/09 revenue estimates may need to be reduced up to \$2 million. Staff expects the revised amount to be reflected in the next monthly report.
- Hotel/Motel Transient Occupancy Tax (Bed Tax) revenue is relatively flat for the fiscal year-to-date over the prior-year period, and is down \$0.2 million compared to year-to-date budget for FY 2007/08. Fiscal yearend revenue estimates have been revised downward \$0.2 million. Current assessment of Valley tourism

Monthly Financial Update

is that the industry is beginning to plateau from its post 9/11 recovery, reflecting lower occupancy and room rates.

- Auto Lieu Tax revenue is down \$0.2 million fiscal year-to-date over the prior-year period, and is down \$0.8 million compared to year-to-date budget for FY 2007/08. Fiscal yearend revenue estimates have been revised downward \$1.0 million. This revenue category is part of the vehicle license fees collected by Maricopa County and is a State revenue source. The City receives its share of the vehicle license tax collection based on its population in relation to the total incorporated population of Maricopa County. As with retail sales, auto sales are expected to continue to take a hit during the economic slowdown as consumers hold back on large purchases and credit approval continues to tighten.
- Development Permit and Fee revenue is down \$3.1 million fiscal year-to-date over the prior-year period; Budget-to-actual year-to-date revenue is down \$3.4 million for FY 2007/08. Revenue projections have been revised downward by \$4.0 million. Planning department staff anticipates additional revenues in future months related to permit activity for SkySong and Scottsdale Quarter.
- State-Shared Sales Tax receipts are down \$0.5 million for the fiscal year-to-date over the prior-year period; Budget-to-actual year-to-date revenue is down \$1.9 million for FY 2007/08. Revenue projections have been revised downward \$2.5 million to reflect a slowing state economy. Current fiscal year State Shared revenues are running below the forecast provided by the Arizona Department of Revenue (ADOR) and the League of Arizona Cities and Towns.
- State-Shared Income Tax receipts are up \$5.9 million year-to-date over the prior-year period; Budget-to-actual year-to-date revenue is relatively flat for FY 2007/08. State income tax receipts are received based upon revenue earned by taxpayers two-years prior.

FY 2007/08 EXPENDITURES

The table below compares fiscal year-to-date (YTD) approved budget to fiscal year-to-date expenditures for FY 2007/08, as well as the total approved FY2007/08 budget to the latest expenditure forecast, which incorporates anticipated yearend department expenditure savings.

FY 2007/08 General Fund Expenditures (In Millions)	Fiscal YTD Approved Budget	Fiscal YTD Expenses	Fiscal YTD \$ Variance	FY 07/08 Approved Budget	FY 07/08 Current Forecast	Variance/ Surplus (Deficit)
General Government	\$ 26.4	\$ 23.0	\$ 3.4	\$ 28.3	\$ 27.1	\$ 1.2
Police Department	80.2	78.8	1.4	86.7	86.1	0.6
Financial Services	9.1	9.2	(0.1)	9.9	9.5	0.4
Transportation	0.2	-	0.2	0.2	0.1	0.1
Community Services	53.4	52.0	1.4	58.0	56.8	1.2
Information Services	10.0	9.2	0.8	10.8	10.6	0.2
Fire Department	29.6	26.4	3.2	32.4	31.4	1.0
Municipal Services	1.0	1.2	(0.2)	1.1	1.1	-
Citizen & Neighborhood Res	3.4	3.0	0.4	3.7	3.1	0.6
Human Resources	4.3	3.3	1.0	4.6	4.0	0.6
Economic Vitality	1.5	1.7	(0.2)	1.6	1.5	0.1
Planning & Development	15.4	13.4	2.0	16.7	15.8	0.9
CPM/Strmwtr Allocation ⁽¹⁾	-	-	(2.7)	-	-	-
Add'l Est. Dept Savings ⁽²⁾	-	-	-	(5.7)	-	(5.7)
Total ⁽³⁾	\$ 234.5	\$ 221.2	\$ 10.6	\$ 248.3	\$ 247.1	\$ 1.2

Table may display minor rounding variances in the aggregate due to reflecting amounts in millions.

- (1) *Represents Personal Services expenditure variances for Capital Projects Management and Stormwater Management operating centers that are charged back to specific capital projects fund and, therefore, are not representative of cost savings to the General Fund operating budget.*

June 2008

Monthly Financial Update

- (2) \$5.7 million in aggregate estimated savings was part of the FY 2007/08 approved budget plan.
- (3) Departments project approximately \$1.2 million in additional yearend savings plus the \$5.7 million reflected in the approved budget for a total yearend estimated savings of \$6.9 million.

Estimated Department Expenditure Savings:

Fiscal yearend expenditure forecasts by departments reflect an estimated \$6.9 million in General Fund yearend savings, as shown in the table.

Below are some of the major contributors to these savings:

General Fund:

- General Government: Personal Services \$0.7 million due to vacancy savings; Contractual Services \$0.5 million
- Police Department: \$0.6 million in Contractual Services
- Financial Services: Personal Services \$176,000 from vacancy savings; Contractual Services \$267,000.
- Transportation: Personal Services \$0.1 million vacancy savings
- Community Services: \$1.2 million in savings, including \$0.9 million in Personal Services
- Information Systems: Personal Services \$0.2 million vacancy savings
- Fire Department: approximately \$1.0 million in Personal Services savings
- Citizen & Neighborhood Resources: Personal Services \$0.5 million vacancy savings; Contractual Services \$0.1 million.
- Economic Vitality: Personal Services \$35,000 vacancy savings; Contractual Services \$80,000
- Human Resources: Personal Services \$0.3 million in vacancy savings; Contractual Services \$0.2 million; Commodities \$0.1 million
- Planning and Development Services: Personal Services \$0.6 million due to vacancy savings; Contractual Services \$0.3 million.

Enterprise Fund – Water Resources: Personal Services \$0.8 million vacancy savings; Contractual Services \$4.8 million due to SROG and electric savings.

Fleet Fund – Municipal Services: Personal Services \$150,000 vacancy savings; Commodities savings of \$0.5 million.

BUDGET UPDATE

Budget Process Update:

After conducting three public budget hearings in May, the City Council adopted the FY 2008/09 budget on June 3. The City Council also held the statutorily required Truth In Taxation hearing before the June 3 budget adoption. City Council concluded the FY 2008/09 budget process with the adoption of the property tax and streetlight district levies on June 17. The Budget staff is currently preparing the adopted FY 2008/09 budget books, which will be available mid-July.

Contingency Budget Update:

- General Fund Operating Budget Contingency. During the fiscal year, Financial Services staff monitors the \$2,940,000 General Fund Operating Budget Contingency. City Council has approved the following uses of cash from the General Fund Operating Budget Contingency:
 - July 9, 2007: \$440,000 to fund the City's PM 10 program to comply with Federal EPA standards.
 - December 4, 2007: \$350,000 to fund the addition of four new Stormwater staff and their related equipment needs. The new staff is incorporated into the City's proposed FY 2008/09 budget.
 - February 19, 2008: \$64,000 to resolve a lawsuit entitled GZJ Marketing & Finance, LTD v. City of Scottsdale.

The total General Fund Operating Budget Contingency approved for use by City Council in FY 2007/08 was \$854,000, leaving a cash carryover balance of \$2,086,000 for FY 2008/09.

Monthly Financial Update

- Photo Enforcement Loop 101 Program – Contingency – On June 19, 2007, the City Council approved the entire General Fund contingency transfer of \$3.0 million in FY 2007/08 for continuation of Scottsdale Photo Enforcement Program on Loop 101 Pima Freeway.
- Capital Budget Contingency. During the fiscal year, Financial Services staff monitors the use of the \$4,500,000 Capital Budget Contingency. The City Council has approved the following uses of cash from the Capital Budget Contingency:
 - September 18, 2007: \$150,000 to fund the replacement and installation of three humidifiers at the Scottsdale Museum of Contemporary Art.
 - November 19, 2007: \$1,800,000 to fund the completion of the South Canal Bank Improvements of which \$560,000 of the funding is coming from the SRP Municipal Aesthetic Funding. Cash from the Capital Budget Contingency equals \$1,240,000.
 - April 15, 2008: \$546,947 to fund the Construction Manager at Risk Construction Services Contract for Grayhawk Community Park-Phase I.
 - May 6, 2008: \$125,000 to fund the settlement of the Happy Peak roadway and utility condemnation case.
 - June 3, 2008: \$3,264 to fund the year-end closeout of two projects with nominal negative balances.

The total Capital Budget Contingency approved for use by City Council in FY 2007/08 was \$2,065,211, leaving a cash carryover balance of \$2,434,789 for FY 2008/09.

NATIONAL, STATE, AND LOCAL ECONOMIC TRENDS

The following table summarizes some key national and state economic indicators, compares the results to previous actual or forecast, and provides a positive, negative, or neutral trend. Unless otherwise indicated, previous and current values represent a month-to-month comparison in the same year.

Economic Indicators	Month or Quarter	Current Value	Overall Trend**	2009 Estimate
<u>National – Leading Economic Index</u>	May	102.1	Negative	-
Consumer Confidence	May	57.2	Negative	-
Consumer Price Index	May	216.632	Negative	-
Unemployment Rate	May	5.5%	Negative	-
<u>State - Leading Economic Index</u>	January	119.1	Negative	-
Arizona Business Conditions Index	May	48.3	Negative	-
Retail Sales Growth	Forecast*	1.6%	Negative	3.5%
Personal Income Growth	Forecast*	5.0%	Negative	5.4%
Wage and Salary Employment Growth	Forecast*	0.5%	Negative	1.7%
Manufacturing Employment Growth	Forecast*	- 0.5%	Negative	0.2%
Unemployment Rate	Forecast*	4.6%	Neutral	4.5%
Population Growth	Forecast*	2.5%	Neutral	2.5%
Hotel/Motel Room Rate (Scottsdale)	April	\$200.37	Positive	-
Hotel/Motel Occupancy Rate (Scottsdale)	April	73.3%	Negative	-

*Reflects Arizona Blue Chip Consensus Economic Forecast annual percent change 2008 from 2007 and projected 2009 from 2008, as of May 2008.

**Overall Trend considers performance of indicators over a three-to-six-month period, not necessarily a month-to-

month comparison.

National:

- The U.S. leading index increased slightly in May, following a small increase in April. In May, the six-month rate of decline in the leading index slowed to -0.7 percent (a -1.4 percent annual rate), from -2.4 percent (a -4.7 percent annual rate) in the six-month period through January. The leading index has risen in the past two months, following a steady decline that began in the middle of last year. However, the number of components that are falling continues to be greater than the number of components that are rising over the past six months. Real GDP expanded at an average annual rate of 0.7 percent for the first quarter of 2008 and the fourth quarter of 2007, down from an average annual rate of 4.4 percent for the previous two quarters. Taken together, the behavior of the composite indexes so far continues to suggest weak economic activity in the near term.
- The Conference Board Consumer Confidence Index continues its downward spiral in May. The Index now stands at 57.2 (1985=100), down from 62.8 in April. Says Lynn Franco, Director of The Conference Board Consumer Research Center: "The Consumer Confidence Index now stands at a 16-year low (Oct. 1992, 54.6). Weakening business and job conditions coupled with growing pessimism about the short-term future have further depleted consumers' confidence in the overall state of the economy. Consumers' inflation expectations, fueled by increasing prices at the pump, are now at an all-time high and are likely to rise further in the months ahead. As for the short-term outlook, the Expectations Index suggests little likelihood of a turnaround in the immediate months ahead." The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households. The cutoff date for May's preliminary results was May 20th.
- The Consumer Price Index for All Urban Consumers increased 0.8 percent in May, before seasonal adjustment, according to the Bureau of Labor Statistics of the U.S. Department of Labor. The May level of 216.632 (1982-84=100) was 4.2 percent higher than in May 2007.
- The U.S. unemployment rate rose from 5.0 to 5.5 percent in May, and nonfarm payroll employment continued to trend down (-49,000), according to the Bureau of Labor Statistics of the U.S. Department of Labor. In May, employment continued to fall in construction, manufacturing, retail trade, and temporary help services, while health care continued to add jobs. Average hourly earnings rose by 5 cents, or 0.3 percent, over the month. The number of unemployed persons increased by 861,000 to 8.5 million in May, after seasonal adjustment. A year earlier, the number of unemployed persons was 6.9 million, and the jobless rate was 4.5 percent.

Arizona:

- Arizona Business Conditions Index Indicates Continued Slump. The Arizona Business Conditions Index was below 50 in May 2008 for the sixth time in the last eight months. An index less than 50 suggests a contracting economy. "The Arizona economy appears to have entered a mild recession in the autumn of 2007," said Tom R. Rex, associate director of the Center for Competitiveness and Prosperity Research in the W. P. Carey School of Business. In May, four of the five components of the Arizona Business Conditions Index had a reading of less than 50. And the prices index -- not part of the composite Arizona Business Conditions Index - rose again. Its value of 83 was the highest since April 1980. Only one month since the beginning of 1981 -- when the country was experiencing double-digit inflation and an oil shortage -- has had a value as high as that of each of the past three months.

The Arizona Business Conditions Index is based on data compiled monthly from a survey of purchasing and supply managers across Arizona, representing a cross-section of all sectors. The survey queries whether activity in the respondent's organization was higher, the same, or lower than in the previous month on several measures of business conditions. Five of these measures (new orders received, purchased materials inventory level, delivery time on orders placed, employment, and production/business activity) are equally weighted to form the composite Arizona Business Conditions Index. The composite index is a coincident indicator of economic activity that provides the earliest indication of the monthly performance of the economy. A composite index of less than 50 suggests that economic activity is declining. An index of between 50 and 55 typically indicates that the economy is experiencing weak growth. A value between 55 and 60 generally is associated with moderate economic gains, while an index greater than 60 usually occurs at times of strong economic increases.

SCOTTSDALE BUSINESS ACTIVITY (PROVIDED BY ECONOMIC VITALITY)

- **General Dynamics C4 Systems** of Scottsdale is set to play a major role in the modernization of the U.S. Army over the next decade. Their primary role is in building the communications network that is expected to be the backbone of the Army of the future. They are a leading contractor on both the Warfighter Information Network-Tactical program (Win-T), which is developing a secure, high-bandwidth wireless network that will deliver mobile connectivity to soldiers in battle, and the Joint Tactical Radio System program that is developing the radios that will link as many as 750,000 soldiers with the Win-T network. The modernization effort could pump billions into the Scottsdale-based division.
 - **American Solar Electric**, headquartered in Scottsdale, launched its “Sunny Community” group purchase program in the PebbleCreek community in Goodyear. Through this program they can offer group discounts due to increased operating efficiencies. American Solar Electric is currently Arizona’s leading solar electric system design-build firm.
 - **Kyocera Solar, Inc.**, with operation headquarters located in Scottsdale, announced that it has partnered with Zacher Homes and American Solar Electric to bring solar electric systems to Central Arizona’s mainstream luxury housing market as a standard feature. The custom homebuilder’s three new, all-solar, single-family housing developments in north-central Phoenix will feature solar electric systems on each home incorporating state-of-the-art Kyocera solar modules.
 - **ARINC Direct**, located at the Scottsdale Airport, announced it is offering complete custom interior modification work on-site for corporate aircraft. The company has recently added new offices for an in-house interior designer and an interior engineering specialist, rounding out a facility expansion that began with a custom cabinetry shop in November.
 - **Swift Aviation** announced its intention to expand its operations to Scottsdale Airport. Swift performs varying levels of services for customer companies, ranging from performing occasional or ongoing aircraft maintenance to providing pilots and crews to fly the planes. The new space will house two business development executives and one mechanic.
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